

Message Text

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INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 SSO-00 SP-02

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O R 100018Z JUL 76

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

C O N F I D E N T I A L STATE 171079

LIMDIS FOR THE AMBASSADOR

E.O. 11652: GDS

TAGS: EEC, IT, PFOR

SUBJECT: THE EC AND ITALIAN SITUATION

REF: EC BRUSSELS 06483

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1. WITH REGARD TO EC COMMISSION VICE PRESIDENT HAFERKAMP'S

EFFORT TO PROMOTE EARLY EC ASSISTANCE FOR ITALY, WE BELIEVE HIS INITIATIVE IS PREMATURE AND WOULD BE COUNTERPRODUCTIVE. WE DO NOT SEE NEED AT THIS POINT FOR SHORT TERM ASSISTANCE AND WOULD NOT WISH SUCH FINANCING TO REDUCE THE INCENTIVE FOR GOI TO ADDRESS ITS ECONOMIC DIFFICULTIES SQUARELY. ACCORDINGLY, WHILE WE SHARE HAFERKAMP'S OWN DOUBTS THAT THE GOI WOULD TAKE UP HIS SUGGESTION -- AND DO NOT WANT TO BE DRAWN INTO DEBATE OVER WHAT IS RATHER UNIQUE PERSONAL EFFORT BY ONE COMMISSIONER TO PRECIPITATE EC AND ITALIAN ACTION -- YOU ARE REQUESTED TO DISCREETLY DISCOURAGE HAFERKAMP INITIATIVE.

2. MISSION SHOULD POINT OUT THAT ITALY'S NEED FOR SHORT-TERM ASSISTANCE IS DOUBTFUL AT THIS TIME, AS REFLECTED IN FACT THAT ITALY HAS NOT DRAWN DOWN OUTSTANDING EC AND BIS SHORT-TERM CREDIT LINES YET. ALTHOUGH THE SIGNS APPEAR MIXED FOR THIS YEAR OVERALL, THE ITALIAN BALANCE OF PAYMENTS TENDS TO BE STRONGER DURING THE SECOND HALF OF THE YEAR AND,

IN PARTICULAR, DURING THE THIRD QUARTER. CURRENT ACCOUNT PROSPECTS FOR THE SECOND HAF APPEAR REASONABLE. HOWEVER, \$3.5 BILLION OF FOREIGN DEBT REMAINS DUE IN 1976. FAVORABLE SEASONALITY AND OTHER FACTORS HAVE RESULTED IN RECENT APPRECIATION OF THE LIRA EXCHANGE RATE AND RECENT ACCUMULATIONS OF FOREIGN EXCHANGE IN MARKET BY THE BANK OF ITALY.

3. OUR PRINCIPAL CONCERN IS TO ENCOURAGE THE NEW GOVERNMENT TO PREPARE A CREDIBLE ECONOMIC PROGRAM AS SOON AS POSSIBLE. WHILE COMMISSIONER HAFERKAMP'S PROPOSAL IS THAT THE CARETAKER GOVERNMENT SHOULD REQUEST EC FINANCIAL SUPPORT FOR "THREE OR FOUR PRIORITY ECONOMIC REFORM OBJECTIVES", PIECEMEAL ASSISTANCE, TOGETHER WITH FAVORABLE SEASONAL FORCES, COULD TEND TO WEAKEN PRESSURE ON THE GOVERNMENT TO TAKE DECISIVE ACTION ON A COMPREHENSIVE ECONOMIC PROGRAM. WHILE THE EC WILL HAVE TO DEAL WITH ANY REQUESTS PUT TO IT BY A CARETAKER GOVERNMENT ON THE BASIS OF THEIR MERITS, WE HOLD TO THE VIEW THAT ASSISTANCE CAN BE BEST PROVIDED BY MULTILATERAL MEANS IN SUPPORT OF A FIRM PROGRAM FOR RESTORING ECONOMIC STABILITY. WE BELIEVE THAT THE GOI MUST FULLY IDENTIFY ITS REQUIREMENTS AND THAT, GIVEN POST-ELEC-
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TORAL SORTING OUT PROCESS NOW UNDERWAY, INITIATIVES FROM ITALY'S PARTNERS AND FRIENDS WOULD BE MORE APPROPRIATE AFTER THE FORMATION OF AN ITALIAN GOVERNMENT AND ANNOUNCEMENT OF AN ECONOMIC PROGRAM. WE DESIRE TO MAINTAIN CLOSE CONSULTATION WITH THE COMMUNITY AND HOPE THE COMMISSION WILL KEEP US INFORMED AS IT DEVELOPS ITS THINKING.

4. INFO POSTS SHOULD TAKE NO REPEAT NO ACTION ON FORE-

GOING. KISSINGER

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NNN

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